

Message Text

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ACTION EUR-12

INFO OCT-01 IO-13 ISO-00 SP-02 ICA-11 AID-05 EB-08
NSC-05 TRSE-00 SS-15 STR-07 OMB-01 CEA-01 CIAE-00
COME-00 FRB-03 INR-10 NSAE-00 XMB-02 OPIC-03
LAB-04 SIL-01 /104 W
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R 160741Z JUN 78
FM AMEMBASSY LISBON
TO SECSTATE WASHDC 6031
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
USMISSION GENEVA
AMEMBASSY LONDON
AMEMBASSY MADRID
AMEMBASSY PARIS
AMCONSUL PONTA DELGADA
AMCONSUL OPORTO POUCH

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BRUSSELS FOR EEC; GENEVA FOR MTN; PARIS ALSO FOR OECD

E.O. 11652: N/A
TAGS: ECON EFIN PO
SUBJ: ECONOMIC DEVELOPMENTS

BEGIN SUMMARY. WHILE PRESIDENT EANES' TRIP TO THE AMERICAS
DOMINATED THE HEADLINES, GOP FINANCE OFFICIALS CAPITALIZED ON
POSITIVE MOMENTUM OF IMF AGREEMENT. THE NETHERLANDS INITIATED
ITS SHARE OF CONSORTIUM LOAN, AND BRAZIL INCREASED EXPORT
CREDITS TO PORTUGAL. EC COUNCIL APPROVED ITS COMMISSION'S
REPORT ON PORTUGAL'S MEMBERSHIP BID. TAP CONTRACTED FOR 727S.
CONSUMER PRICE INDEX ROSE 21.5 PERCENT DURING FIRST FOUR
MONTHS. GOP SET MAXIMUM WAGE LEVELS FOR LABOR
AND NEW GUIDELINES FOR
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AGRICULTURAL LEASES. NORTHERN
BUSINESSMEN RALLIED AROUND PRIVATE ENTERPRISE. ESCUDO
SHOWED LITTLE MOVEMENT AGAINST U.S. DOLLAR. END SUMMARY.

1. FOLLOWING PRESIDENT EANES' AMERICAN TRIP, GOP
EMISSARIES CONTINUED IMF AGREEMENT MOMENTUM: PRESIDENT RALALHO
EANES' TRIP TO THREE AMERICAN NATIONS LAST WEEK PRODUCED SOME

CONCRETE GAINS GSPFE FROM THE NEEDED BOAST TO NATIONAL PRIDE. DURING THE BRAZILIAN PHASE, GOB ANNOUNCED NEW CREDIT LINES FOR THE BELEAGUERED PORTUGUESE ECONOMY. VENEZUELA OFFICIALS REAFFIRMED THEIR FINANCIAL SUPPORT AND OFFERED THE POSSIBILITY OF FURTHER EMIGRATION OF PORTUGUESE SKILLED WORKERS, A DEVELOPMENT THAT WOULD BE OF MUTUAL BENEFIT. IN WASHINGTON, PRESIDENT CARTER RECONFIRMED U.S. SUPPORT FOR PORTUGUESE DEMOCRACY. WHILE PRESIDENT EANES CAPTURED THE HEADLINES, GOP FINANCE OFFICIALS HURRIED TO CAPITALIZE ON THE POSITIVE MOMENTUM GENERATED BY THE GOP-IMF AGREEMENT. FINANCE MINISTER VITOR CONSTANCIO, BANK OF PORTUGAL OFFICERS SILVA LOPES AND RUI VILAR, AND REPRESENTATIVES OF THE MAJOR BANKS, ARRIVED IN THE UNITED STATES JUNE 5 TO NEGOTIATE NEW MEDIUM-TERM FINANCING AND ARRANGE NEW TERMS FOR CREDITS ALREADY IN HAND. CONSTANCIO'S TEAM REPORTEDLY LEFT WITH U.S. \$300 MILLION IN NEW LOANS FROM AMERICAN BANKS. THE PORTUGUESE PRESS ALSO REPORTED GOP EFFORTS TO STIMULATE NEW WEST GERMAN CREDITS, AND RUMORS OF FEELERS TO JAPANESE BANKS ARE CIRCULATING AS WELL. THE PORTUGUESE PUBLIC FOUND ITSELF CAUGHT UP IN THE AGE OF THE EC AS WELL AS THAT OF THE IMF. THE COUNCIL OF NINE REVIEWED FAVORABLY THE COMMISSION REPORT ON PORTUGAL'S MEMBERSHIP APPLICATION ON JUNE 6.

2. DUTCH LOAN AGREEMENT SIGNED: NETHERLANDS BANK FOR DEVELOPING COUNTRIES AND GOP SIGNED 50 MILLION GUILDER LOAN AGREEMENT LIMITED OFFICIAL USE

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IN LISBON MAY 24. LOAN, WHICH IS DUTCH SHARE OF MULTINATIONAL LENDING ARRANGEMENT FOR PORTUGAL, BEARS 7.5 PERCENT INTEREST; FIRST AMORTIZATION PAYMENT IS DUE JANUARY 1982.

3. BRAZIL INCREASES GOP CREDIT LINES: DURING PRESIDENT EANES' RECENT STATE VISIT, BRAZILIAN GOVERNMENT ANNOUNCED ITS DECISION TO HONOR GOP'S REQUEST FOR INCREASE IN EXPORT CREDITS TO \$70 MILLION. GOB WAS REPORTEDLY SURPRISED AT REQUEST, SINCE GOP HAS USED ONLY \$10 MILLION OF PREVIOUS \$50 MILLION COMMITMENT. INCREASE IN CREDITS WILL PRINCIPALLY BE SYMBOLIC OF GOB SUPPORT, AS GOP IS UNLIKELY TO USE MORE THAN \$10 MILLION ON THIS ROUND.

4. EC'S NATALI IN PORTUGAL AGAIN: EC VICE PRESIDENT LORENZO NATALI, SPEAKING AT LISBON'S ANNUAL INTERNATIONAL FAIR ON JUNE 2, STATED THAT PORTUGAL'S NATIONALIZED SECTORS NEED NOT BE OBSTACLES TO EC MEMBERSHIP SO LONG AS THEY PERMIT FREE COMPETITION AND DO NOT DEPEND ON SPECIAL PRIVILEGES. EC COUNCIL APPROVED COMMISSION'S REPORT ON PORTUGAL'S APPLICATION ON JUNE 6.

5. TAP BUYS, SELLS BOEING AIRCRAFT: TAP SIGNED CONTRACT

MAY 23 TO PURCHASE TWO BOEING 727/200 AIRCRAFT FOR U.S.
\$30 MILLION. FIFTEEN PERCENT OF TOTAL COST WILL COME DIRECTLY
FROM TAP FUNDS; EXIMBANK AND CHASE MANHATTAN WILL FINANCE
REMAINING 85 PERCENT. TAP HAS IN MEANTIME SOLD TWO BOEING
747S TO PAKISTAN AIRLINES FOR \$42 MILLION.

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6. COST OF LIVING FIGURES: LATEST FIGURES ON PORTUGAL'S
CONSUMER PRICE INDEX SHOW THAT COST OF LIVING IN FIRST
FOUR MONTHS ROSE BY AN AVERAGE OF 21.5 PERCENT OVER SAME
PERIOD IN 1977. IN APRIL ALONE, CPI INCREASED BY 5.7 PERCENT
FROM MARCH, WITH FOOD COMPONENT RISING 8.1 PERCENT; FUELS
AND ELECTRICITY, 21.1 PERCENT; TRANSPORTATION 7.7 PERCENT;
AND POSTAGE RATES, 29.5 PERCENT. ON POINT TO POINT BASIS,
PRICES IN APRIL 1978 WERE UP 17.9 PERCENT OVER APRIL 1977,
WITH FOOD AND BEVERAGES INCREASING 18.9 PERCENT; GARMENTS
AND FOOTWEAR, 14 PERCENT; HOUSEHOLD EXPENDITURES, 18.9
PERCENT; AND MISCELLANEOUS, 16.1 PERCENT. SUMMARY
OF INDEX FOLLOWS.

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CPI - PORTUGAL (AVERAGE 1976 PRICES EQUAL 100)

JAN-APRIL AVERAGE	APRIL 1977 - 1978
1977 - 1978 PERCENT-	PERCENTAGE CHANGE
AGE CHANGE	

FOOD & BEVERAGE	122.3	150.3	22.9	134.6	160.0	18.9
GARMENTS & FOOTWEAR	112.9	131.8	16.7	115.6	131.8	14.0
HOUSEHOLD EXPENDITURES	115.0	141.0	22.6	123.2	146.5	18.9
MISCELLANEOUS	112.5	133.6	18.8	117.9	136.9	16.1
TOTAL	118.4	143.8	21.5	127.7	150.6	17.9

7. WAGE LEGISLATION: ON JUNE 2 GOP ISSUED DECREE LAW REDUCING DURATION OF COLLECTIVELY BARGAINED CONTRACTS FROM 18 MONTHS TO 12 MONTHS. DECREE ALSO SET WAGE CEILINGS OF 20 PERCENT AND 30 PERCENT RESPECTIVELY ON WAGE INCREASES BEING NEGOTIATED THIS YEAR FOR CONTRACTS SIGNED IN 1977 AND 1976 WHICH EXPIRE IN 1978. LEGISLATION PERMITS UNIONS TO BEGIN NEW NEGOTIATIONS AFTER 10 MONTHS OF LIFE OF CONTRACT OR TWO MONTHS PRIOR TO EXPIRATION. PREVIOUSLY UNIONS COULD BEGIN NEGOTIATIONS SIX MONTHS IN ADVANCE OF EXPIRATION OF 18 MONTH CONTRACTS. STATISTICS LISTING NUMBER OF CONTRACTS FALLING UNDER 30 PERCENT CEILING ARE NOT READILY AVAILABLE BUT MOST SIGNIFICANT COVERS CIVIL CONSTRUCTION WORKERS WHO ARE SCHEDULED TO STRIKE NATIONWIDE ON JUNE 15 IN SUPPORT OF WAGE DEMAND AND OF UNION EFFORTS TO INTRODUCE VERTICAL BARGAINING. ALL 1977 AND 1976 CONTRACTS WHICH HAVE ALREADY BEEN NEGOTIATED IN 1978 FOR WHICH UNIONS SETTLED FOR LESS THAN FIXED CEILINGS ARE NOT SUBJECT TO RENEGOTIATION. (COMMENT: THE NEW DECREE SATISFIES ONE OF BASIC DEMANDS OF GENERAL WORKERS CONFEDERATION (CGTP) BUT REDUCED LIFE OF CONTRACTS IS BOUND TO IMPOSE FINANCIAL HARDSHIPS ON SOME INDUSTRIES AND NEW 10 MONTH TIMEFRAME FOR NEGOTIATION WILL CAUSE STRAIN ON DISPUTE SETTLEMENT PROCESSES. END COMMENT).

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IN SEPARATE DECREE JUNE 2 GOP FIXED MONTHLY UNEMPLOYMENT SUBSIDIES OF 4200 AND 3200 ESCUDOS RESPECTIVELY FOR WORKERS WITH AND WITHOUT DEPENDENTS. FORMER RATES WERE 3375 AND 2700 ESCUDOS.

8. NEW FARMING LEGISLATION: IN ORDER TO ESTABLISH JURIDICAL RELATIONS BETWEEN GOVERNMENT AND BENEFICIARIES OF EXPROPRIATED OR NATIONALIZED FARMS, GOP ENACTED MAY 27 LEGISLATION THAT STIPULATES RULES FOR LEASING PUBLIC FARMLAND TO PRIVATE

AGRICULTURAL ENTERPRISES. IN EACH AGRICULTURAL REGION, MINISTER OF AGRICULTURE WILL DETERMINE AREAS TO BE LEASED, TYPES OF AGRICULTURAL ENTERPRISES THAT CAN BID, AND TYPES OF CONTRACTS WHICH WILL BE SIGNED. MINISTRY WILL REQUIRE ELIGIBLE AGRICULTURAL ENTERPRISES TO PREPARE TECHNICAL-ECONOMICAL PLAN FOR RUNNING THE FARM WHICH WILL BECOME PART OF CONTRACT.

9. BUSINESSMEN RALLY IN SUPPORT OF PRIVATE ENTERPRISE:
SOME 12,000 BUSINESSMEN FROM ALL SECTORS ATTENDED MAY 27 PORTUGUESE INDUSTRIAL CONFEDERATION (CIP)-SPONSORED MEETING IN OPORTO IN SUPPORT OF PRIVATE INITIATIVE AS SOLUTION TO COUNTRY'S ECONOMIC DIFFICULTIES. GATHERING ENTHUSIASTICALLY GREETED SERIES OF SPEECHES CRITICAL OF GOVERNMENT DISCRIMINATION AGAINST PRIVATE SECTOR AND FAVORITISM TOWARD PUBLIC SECTOR. GROUP AGREED ON FOLLOWING DEMANDS TO BE PRESENTED TO GOP: RETURN OF INTERVENED COMPANIES TO PRIVATE MANAGEMENT; HALT TO ALLEGED ABUSES AND FRAUDS IN GOVERNMENT DISTRIBUTION OF RAW MATERIALS; MAJOR REVISION OF FISCAL SYSTEM; AND IMPROVED ACCESS TO CREDIT. CIP IS PLANNING BROADER NATIONAL GATHERING, POSSIBLY IN OCTOBER.

10. ESCUDO RATE: ESCUDO/DOLLAR BUY RATE, WHICH CLOSED AT 45.578 ON MAY 19, FINISHED AT 45.716 ON JUNE 15. HIGHEST RATE YET RECORDED WAS ON MAY 24 WHEN ESCUDO CLOSED AT 45.864. OKUN

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